



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0105	Title:	Tax incentives for volunteer firefighters and their employers
Primary Sponsor:	Laible, Rick	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$5,305,661)	\$0	\$0
Net Impact-General Fund Balance	<u>\$0</u>	<u>(\$5,305,661)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact:

This bill provides an income tax credit for volunteer firefighters and a deduction for employers who allow a volunteer firefighter time off to respond to calls in 2010. The credit and deduction would reduce general fund revenue by \$5.3 million in FY 2011.

FISCAL ANALYSIS

Assumptions:

1. This bill provides an income tax credit for volunteer firefighters and a deduction for employers who allow a volunteer firefighter time off to respond to calls. As written, the credit and deduction are available only for tax year 2010. (See Technical Note 1.)

Personal Income Tax Credit

2. The credit is \$1,000 for a volunteer firefighter who spent at least 1,200 hours on call, responding to calls, or up to 200 hours of training. A volunteer firefighter who spent less than 1,200 hours on call, responding to calls, or in training may take a credit proportional to the number of hours. If the credit is more than the taxpayer's tax liability, the excess will be refunded.
3. According to the Fire Services Training School, there are approximately 11,000 firefighters in Montana. About 96%, or 10,560, are volunteers. There are about 2,300 active participants in the volunteer firefighter's retirement in Montana. For the purpose of this fiscal note, it is assumed that 50% of all volunteer firefighters would claim the full tax credit in the first year. The other 50% of volunteers are

assumed to not reach to 120-hour threshold for claiming the credit. Total credits for the first year will be \$5,280,000 ($50\% \times 10,560 \times \1000).

4. This bill does not clearly define the requirements of on call time. The risk to the general fund is that all 10,560 volunteers could claim the maximum credit by reporting on call time as the full time they are available for a call, or 24 hours per day, 7 days per week. In this case, total credits would be \$10,560,000.
5. It is assumed that if this bill is extended beyond 2010, volunteers will take advantage of the unclear on call requirements, resulting in 75% of volunteers claiming the full credit in 2011 and all volunteers claiming the maximum credit in 2012. If extended, credits would be \$7,920,000 in FY 2012 and \$10,560,000 in FY 2013.

Employer Deduction

6. The amount of the deduction depends on the number of hours the employee misses regularly scheduled work responding to calls. The minimum deduction is \$100, for 99 or fewer hours in a year. A volunteer firefighter who misses 99 hours of work per year responding to calls would miss an average of 1.9 hours per week. This fiscal note assumes that the minimum deduction will be claimed by the employer of each volunteer firefighter.
7. The total amount of deductions claimed will be \$528,000. According to the Quarterly Census of Employment and Wages by the Bureau of Labor Statistics, 72% of Montana payroll employment is at private companies with five or more employees. Assuming that these are the companies filing corporate tax, this bill will reduce employers' tax liability by \$25,661 ($72\% \times 6.75\% \times \$528,000$).
8. The revenue reduction from credits and deductions for tax year 2010 will occur when volunteer firefighters and their employers file tax returns in FY 2011. General fund revenue will be reduced by \$5,305,661 in FY 2011.
9. This bill would require an additional line and accompanying instruction on both the individual and corporate income tax forms. The changes to forms would be made as part of the annual update process. Changes to the Department of Revenue's data processing system would require 40 hours of programming and 20 hours of testing. The programming would be done as part of the software vendor's annual maintenance contract, and the testing would be done by department staff. There would be no additional monetary cost, but resources would be diverted from other uses.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	\$0	(\$5,305,661)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$5,305,661)	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

There would be a cost to the counties for setting up the firefighter database required by this bill.

Technical Notes:

1. Section 11 states that Sections 2 through 4 apply "to tax years beginning January 1, 2010." This makes the bill apply for one year. This fiscal note is for the bill as written. If the intent is for this bill to apply to more than one year, Section 11 should be amended to read "[Sections 2 through 4] apply to tax years

beginning on or after January 1, 2010. If this amendment were made, the impact in FY 2012 and later years would be the same as the impact shown for FY 2011.

2. Section 2 gives requirements for claiming the credit. Subsection (1) requires that the individual volunteered at least 120 hours *in the previous calendar year*, while subsections (2) and (3) give requirements for hours volunteered *in the tax year*. The time period for the conditions in subsections (2) and (3) are clear – they apply to the tax year for which the credit is being claimed. The time period for the condition in subsection (1) is not clear. If there is no reason to distinguish between tax years and calendar years, it would be clearer to refer to tax years throughout this section.
3. Section 4 is not clear. A pass-through entity generally takes deductions at the entity level and then distributes any income or loss to the owners. A deduction is not attributed to the owners. This section would be clearer without the last sentence.
4. Section 3 provides that corporations are allowed a deduction for giving volunteer firefighters time off to respond to calls. Section 4 allows S-corporations and partnerships to also take the deduction. The bill does not allow a sole proprietor to take the deduction.
5. Section 5 requires that each volunteer fire department provide information to “the department” each year. Section 9 directs that Section 5 be codified in Title 7. It appears that this leaves the term “the department” undefined. If the intent is to have the information sent to the Department of Revenue, either the department needs to be referenced by name or the requirement needs to be codified in Title 15.

Sponsor's Initials

Date

Budget Director's Initials

Date